

FISCAL NOTE

HB 1 - SB 1

FIRST EXTRAORDINARY SESSION

April 5, 1999

SUMMARY OF BILL:

Provides various changes to Tennessee's tax structure as follows:

- Removes the state portion of sales tax on grocery food.
- Requires all businesses, however organized, to pay franchise and excise taxes.
- Allows a \$72,000 excise tax exemption from net earnings for sole proprietorships.
- Allows a \$72,000 per partner exemption from net earnings subject to the excise tax for partnerships.
- Requires that excise tax be paid on compensation paid to employees in excess of \$72,000 per employee.
- Cuts the franchise tax rate in half.
- Requires that the franchise tax also be paid on gross receipts of the business.
- Removes the sales tax exemption for landscape architectural and engineering services.
- Provides an effective date of July 1, 1999 for all provisions of the bill, except removal of the sales tax on food which is to be effective January 1, 2000.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - \$725,000,000 FY99-00
\$521,000,000 FY00-01

Increase State Expenditures - \$5,848,000 Recurring
\$3,740,000 One-Time

Revenue estimate assumes:

Excise tax base \$21,070,341,336 @ 6% =	\$1,264,220,480
Franchise tax base \$435,000,000,000 @ .125% =	543,750,000
Total	\$1,807,970,480
Less: Avg. industrial machinery & jobs credits	(50,000,000)
Adjusted Total	<u>\$1,758,000,000</u>

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	<u>FY99-00</u>	<u>FY00-01</u>
New business tax	\$1,758,000,000	\$1,758,000,000
Add: Sales tax (architects/engineers)	71,000,000	71,000,000
Less: Food tax	<u>(204,000,000)</u>	<u>(408,000,000)</u>
Total	\$1,625,000,000	\$1,421,000,000
Less: Original franchise & excise		
Tax estimate	<u>(900,000,000)</u>	<u>(900,000,000)</u>
Estimated Revenue Increase	<u><u>\$725,000,000</u></u>	<u><u>\$521,000,000</u></u>

Expenditure estimates assume:

- 110 additional positions and related expenses in the Department of Revenue detailed as follows:

	<u>Expenditures</u>	<u>Positions</u>
Processing	\$ 575,565	29
Enforcement	863,323	38
Audit	432,360	12
Taxpayer Services	712,920	30
MIS	<u>39,588</u>	<u>1</u>
Subtotal	\$2,623,756	110

- the increase in expenditures for personnel and other related costs is shown below:

	<u>Recurring</u>	<u>One-Time</u>
Personnel	\$2,623,756	\$
MIS	2,353,924	2,048,300
Other	<u>870,643</u>	<u>1,691,562</u>
Total	<u><u>\$5,848,323</u></u>	<u><u>\$3,739,862</u></u>

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director